



U.S. Department of Agriculture



Office of Inspector General
Great Plains Region

Audit Report

Food and Nutrition Service National School Lunch Program Kearney R-I School District Kearney, Missouri

Report No. 27010-20-KC
March 2004



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
Great Plains Region
8930 Ward Parkway, Suite 3016
Kansas City, Missouri 64114-3302
TEL: 816.926.7667 FAX: 816.926.7676



DATE: May 11, 2004

REPLY TO
ATTN OF: 27010-20-KC

SUBJECT: National School Lunch Program – Kearney R-I School District, Kearney, Missouri

TO: Darlene Barnes
Regional Administrator
Food and Nutrition Service
1244 Speer Boulevard, Suite 903
Denver, CO 80204

This report presents the results of the subject audit. Your written response, dated March 11, 2004, to the official draft report has been incorporated into the Findings and Recommendations section of the report, where appropriate. The text of the response is attached as exhibit F. Your reply expressed agreement with the recommendations; however, we were unable to reach management decisions on any of the recommendations. The Findings and Recommendations section of the report explains those actions necessary for us to consider management decisions on Recommendations Nos. 1 through 14. In general, we will need to be advised of the specific actions completed, or planned, along with acceptable dates for completing the proposed actions. In addition, the claim amounts determined to be improper must be recovered or an accounts receivable established.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing corrective actions taken, or planned, and the timeframes for accomplishing final action. Please note that the regulation requires management decisions to be reached on all findings and recommendations within 6 months from the date of report issuance, and final action should be completed within 1 year of management decision.

We appreciate the assistance provided to us during our review.

/s/

DENNIS J. GANNON
Regional Inspector General
for Audit

Executive Summary

Food and Nutrition Service, National School Lunch Program, Kearney, Missouri (Audit Report No. 27010-20-KC)

Results in Brief

This report presents the results of our audit of the National School Lunch Program (NSLP),¹ as operated by the Kearney R-I District (district). This district served as the local school food authority under an agreement with the Missouri Department of Elementary and Secondary Education, which served as the State agency. The United States Department of Agriculture (USDA) Food and Nutrition Service (FNS) served as the funding agency. For school year 2001/2002 operations, the district claimed about \$105,000 in FNS reimbursement and about \$6,600 in State agency reimbursement.

Our objectives were to evaluate the district's meal accountability, procurement, accounting systems, and management controls that were designed to provide reasonable assurance as to the accuracy of its meal claims and reimbursement for school years 2001/2002 and 2002/2003.

We found that the district lacked internal controls to ensure the number of meals claimed for reimbursement by the district and meals billed by the Food Service Management Company (FSMC) reconciled to the meal counts generated by the district's automated meal accountability system. In addition, edit checks of the accuracy of meal claims were not performed, as required. We identified overclaims and underclaims of \$959 and \$447, respectively. Yearend reconciliations of credits for donated commodities were also not performed. The district did not have internal controls over or monitor the FSMC's compliance with contract terms, and we identified the FSMC's billings of approximately \$5,500 were not supported by the automated meal accountability system. Records supporting the claims for reimbursement were not retained, and the accounting system did not ensure the food service funds were properly accounted for and adequately separated.

The district advised that they had initiated corrective actions on conditions we noted. For example, during the 2003/2004 school year, the district school lunch secretaries and the central office personnel began comparing meal counts with the FSMC on a weekly basis. The central office personnel also began tracking the USDA-donated commodities received, monitoring the FSMC use of those commodities, and providing the individual school secretaries with additional training and support to ensure accurate meal counts and records of income.

¹ Also includes the School Breakfast Program (SBP).

**Recommendations
In Brief**

We recommend that FNS instruct the State agency to direct the district to implement various management controls over aspects of its accounting system. For example, we recommend that the district be directed to (1) review the meal accountability system's meal count numbers to ensure the accuracy and support of meal counts claimed for reimbursement, (2) perform and document edit checks, (3) develop a monitoring process that would ensure the FSMC operated in accordance with the contract/agreement, including a yearend reconciliation, (4) retain all meal accountability records for 3 years, and (5) correct improper reimbursements and improper charges to the food service account.

FNS Response

Although the agency response showed FNS officials concurred with the recommendations, it did not provide sufficient information to reach management decisions on any of the recommendations. We incorporated their comments in the applicable sections of the report and attached a copy of the comments as exhibit F.

OIG Position

The Findings and Recommendations section of the report explains those actions necessary for us to consider management decisions on Recommendations Nos. 1 through 14. In order to reach management decisions, we will need to be advised of the specific actions completed, or planned, along with acceptable timeframes for completing the proposed actions.

Abbreviations Used in This Report

| | |
|----------|--|
| Act | Richard B. Russell National School Lunch Act |
| ASBR | Annual Secretary of the Board Report |
| CFR | Code of Federal Regulations |
| District | Kearney R-I School District |
| FNS | Food and Nutrition Service |
| FSMC | Food Service Management Company |
| NSLP | National School Lunch Program |
| OIG | Office of Inspector General |
| POS | Point of Service |
| RFP | Request for Proposal |
| SBP | School Breakfast Program |
| USDA | United States Department of Agriculture |

Table of Contents

| | |
|--|------------|
| Executive Summary | i |
| Abbreviations Used in This Report | iii |
| Background and Objectives | 1 |
| Findings and Recommendations..... | 3 |
| Section 1. Controls Over the NSLP/SBP Meal Counts..... | 3 |
| Finding 1 Meal Counts Reported to State Agency Were Not Supported | 3 |
| Recommendation No. 1..... | 5 |
| Recommendation No. 2..... | 5 |
| Recommendation No. 3..... | 5 |
| Finding 2 Meal Accountability Procedures Not Documented..... | 6 |
| Recommendation No. 4..... | 7 |
| Recommendation No. 5..... | 7 |
| Section 2. Controls Over Procurement Related to the Food Service Management Company .. | 8 |
| Finding 3 The District Did Not Monitor USDA-Donated Commodities | 8 |
| Recommendation No. 6..... | 9 |
| Finding 4 District Meals Claimed for Reimbursement Were Not Reconciled to FSMC Billings and the Meal Accountability System’s Reports | 9 |
| Recommendation No. 7..... | 10 |
| Finding 5 District Did Not Have Adequate Controls or Monitoring Procedures Over Rebate Program | 10 |
| Recommendation No. 8..... | 11 |
| Finding 6 District Did Not Adequately Monitor FSMC Contract Terms..... | 12 |
| Recommendation No. 9..... | 12 |
| Section 3. Accounting Procedures and Controls | 13 |
| Finding 7 District Did Not Retain Proper Records..... | 13 |
| Recommendation No. 10..... | 13 |
| Finding 8 District’s Accounting System Contained Flaws..... | 14 |
| Recommendation No. 11..... | 15 |
| Finding 9 District Did Not Have Procedures to Prorate Interest Income to the Food Service Fund..... | 16 |
| Recommendation No. 12..... | 16 |
| Section 4. Competitive Foods Sold During Meal Service Period | 17 |

| | | |
|--|---|-----------|
| Finding 10 | District Continued to Sell Competitive Foods of Minimal Nutritional Value | 17 |
| | Recommendation No. 13..... | 17 |
| | Recommendation No. 14..... | 18 |
| Scope and Methodology..... | | 19 |
| Exhibit A – Summary of Monetary Results | | 21 |
| Exhibit B – District Errors in Accumulating Lunch Meal Counts | | 22 |
| Exhibit C – District’s 2002/2003 Commodity Inventory | | 25 |
| Exhibit D – Errors in FSMC Billing Lunch Meal Counts | | 26 |
| Exhibit E – District Control Weaknesses in Overseeing FSMC Contract | | 28 |
| Exhibit F – FNS Reply to Official Draft | | 31 |

Background and Objectives

Background

On June 4, 1946, Congress passed the National School Lunch Act,² now the Richard B. Russell National School Lunch Act (Act), which authorizes Federal assistance to school lunch programs. The intent of the Act, as amended December 29, 2001, is to safeguard the health and well-being of the Nation's children by providing them with nutritious foods and to encourage the domestic consumption of nutritious agricultural commodities and other foods. This is accomplished by assisting States, through grants-in-aid and other means, in providing an adequate supply of food and facilities for the establishment, maintenance, operation, and expansion of nonprofit school lunch programs.

The Act, as amended, authorizes the payment of general and special assistance funds to States, based upon the number and category of lunches served. Section 4 of the Act authorizes general cash assistance payment for all lunches served to children in accordance with the provisions of the National School Lunch Program (NSLP) and additional special cash assistance for lunches served under the NSLP to children determined eligible for free or reduced-price lunches. The States are reimbursed at various rates per lunch, depending on whether the child was served a free, reduced-price, or full-price (paid) lunch. Eligibility of children for free or reduced-price lunches is based upon their family's household size and income, as listed in the Food and Nutrition Service (FNS) Income Eligibility Guidelines, which are reviewed annually.

FNS is the United States Department of Agriculture (USDA) agency responsible for administering the NSLP and School Breakfast Program (SBP). The FNS Mountain Plains Regional Office, located in Denver, Colorado, is responsible for monitoring and overseeing operations in Missouri. The Missouri Department of Elementary and Secondary Education serves as the State agency and is responsible for overseeing program operations within Missouri. The district, located in Kearney, Missouri, is responsible for operating the NSLP in accordance with regulations. Each State agency is required to enter into a written agreement with FNS to administer the NSLP/SBP, and each State agency enters into agreements with school districts to oversee day-to-day operations. The district administered the NSLP/SBP in seven public schools and contracted with a commercial Food Service Management Company (FSMC) to prepare the meals and operate the lunchrooms.

The fiscal year 2002 funding for the NSLP was \$6 billion for meal reimbursements of approximately 4.7 billion lunches. The Missouri State agency received approximately \$104.5 million for the NSLP, \$28.7 million

² 42 U.S. Code 1751.

for the SBP, \$1 million for the after school snack program, and \$400,000 for the special milk program in Federal reimbursements for school year 2001/2002. For 2001/2002, Missouri provided State funds of approximately \$2.3 million to districts.

The general NSLP requirements are codified in Title 7, Code of Federal Regulations (CFR) 210. Requirements for determining eligibility for free and reduced-price meals and free milk are codified in 7 CFR 245. In accordance with 7 CFR 250, USDA also provides donated foods to districts to assist in operating the nonprofit lunch program. The Missouri State agency provides actual commodities to each public school participating in the NSLP/SBP, with the exception of one district. Generally, schools must collect applications on an annual basis from households of enrolled children and make annual determinations of their eligibility for free or reduced-price meals. These schools must also count the number of free, reduced-price, and paid meals served at the point of service (POS) on a daily basis.

Objectives

The objectives of our review were to evaluate controls over the administration of the NSLP/SBP. We evaluated policies and procedures over meal accountability and oversight of program operation. To accomplish this, we evaluated (1) the accuracy of collections and accounting for reimbursed meals, (2) the accounting and use of program funds relating to the district's procurement of goods and services, including the FSMC, and (3) the accounting for the district's school food service account.

Findings and Recommendations

Section 1. Controls Over the NSLP/SBP Meal Counts

Finding 1

Meal Counts Reported to State Agency Were Not Supported

The district's internal controls were insufficient to ensure the accuracy of monthly meal counts submitted to the State agency on the Claims for Reimbursement. Errors occurred because school secretaries and the central office secretary did not compare meals claimed to the automated meal count data. Also, personnel at the individual school level and central office were not aware of the need to document daily edit checks designed to prevent overclaims, and they misunderstood the edit checks performed at the State agency level. As a result, the district did not provide adequate documentation to support the meals reported on 10 of the monthly claims, which resulted in overclaims of \$959 and underclaims of \$447 (see exhibits A and B).

Federal regulations³ state the district shall establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claims for Reimbursement. At a minimum, these internal controls shall include: an onsite review of the lunch counting and claiming system employed by each school within the jurisdiction of the district; comparisons of daily free, reduced-price, and paid lunch counts against data, which will assist in the identification of lunch counts in excess of the number of free, reduced-price, and paid lunches served each day to children eligible for such lunches; and a system for following up on those lunch counts which suggest the likelihood of lunch counting problems.

Overclaims and underclaims occurred because neither the school secretaries nor the central office compared meal counts claimed for reimbursement to meal counts shown by the automated meal accountability system. Specifically, the school lunch secretaries manually transferred data from the automated meal accountability systems to a district-created spreadsheet, which in turn was reported for each school to the central office monthly and served as the basis for the meals claimed for reimbursement. The internal district procedure where data entry or clerical errors were made is reflected as part of the overclaims and underclaims (see exhibits A and B). For example, in August 2002 the district claimed only 755 free lunches while the automated meal accountability systems showed 807 free lunches were served.

Also, the district did not adequately monitor performance of edit checks designed to ensure the meal counts were not in excess of the number of children currently eligible/approved in each category. For example, we reviewed 3 months of daily participation records and found there were three

³ 7 CFR 210.8(a).

schools that did not have an average daily attendance percentage listed on the daily participation record for 1 month each. An official stated the lunch secretary at one school had just started in the position and that the average daily attendance percentage must have been overlooked at the other two schools for the corresponding months.

In other cases, the edit checks showed the meal counts exceeded the number of children approved but no justification was documented. For example, in August 2001, Holt Elementary School claimed nine reduced-price meals for 1 day, but the edit check record showed there were only seven children eligible. The edit check record did not provide justification for the difference.

A district official stated the district office did not know if the school lunch secretaries (1) reviewed the daily participation records for accuracy, (2) compared the number of children currently eligible/approved in each category or the number of students enrolled to the meal counts, or (3) adjusted the number of children currently eligible/approved or number of students enrolled by the average daily attendance factor.

In addition, district personnel believed that the State agency's online program performed the edit checks when the claims for reimbursement were submitted to the State agency. However, a State agency official stated the districts are required to complete and document edit checks on a monthly basis. (The district officials may review the totals of daily meal counts at monthend, but they must ensure each day's meal counts are correct.) Districts needed to also determine the reason for any differences found during the edit checks. The State agency official stated the Claims for Reimbursement system automatically completed edit checks on the total number of free and reduced-price meals served during the month compared to the number of eligible children the district had approved for the month times the number of days served once the attendance factor is applied. The State agency official stressed the system did not complete edit checks on individual daily meal counts. Another State agency official stated that since the transition to the online Claims for Reimbursement system, the districts might believe the edit checks are performed for them online and may no longer be completing the required daily edit checks.

Recommendation No. 1

Instruct the State agency to provide the district with procedures to correct the overclaims and to provide satisfactory evidence the improper payments were recovered where the State agency or district cannot justify reimbursement in those instances where claimed meals exceeded the edit figure.⁴

FNS Response.

FNS concurred with Recommendation No. 1.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed and provided evidence the improper payments have been corrected.

Recommendation No. 2

Instruct the State agency to provide the district with procedures to correct the underclaims.

FNS Response.

FNS concurred with Recommendation No. 2. However, the State agency may decide not to pay the underclaims, if they wish.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed and provided evidence the underclaims have been corrected.

Recommendation No. 3

Instruct the State agency to instruct the district to (1) provide training and strengthen control procedures over meal counts reported for reimbursement, (2) ensure the meal reports prepared at the individual schools are reviewed for accuracy and reconciled to the data from the automated meal accountability system, and (3) implement all required edit check procedures for daily meal counts by eligibility category; including the use of correct edit check figures, identification of anomalous meal counts, correction of meal counts, where necessary, full explanation of apparent anomalies that remain,

⁴ FNS pointed out that if the State agency or the district can justify reimbursement in those instances where claimed meals exceeded the edit figure, those meals would not be subject to overclaim.

and documentation of all explanations. Instruct the State agency to verify the district has implemented the cited procedures.

FNS Response.

FNS concurred with Recommendation No. 3.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed.

Finding 2

Meal Accountability Procedures Not Documented

The district had not filed the Methods of Collection and Meal Counting Form (a State agency required form) documenting the meal collection and counting procedures at each POS in the schools. District personnel were not aware of the requirement to complete such a form. As a result, there was reduced assurance the daily lunch counts taken at the POS were limited to eligible meals and correctly reported on the Claims for Reimbursement.

Federal regulations⁵ require an application and agreement between the district and State agency for NSLP/SBP operations. Federal regulations⁶ require each onsite review to ensure that the school's claim is based on the counting system authorized by the State agency.

According to a State agency official, a copy of the Methods of Collection and Meal Counting Form must be on file at the district, and it had to submit a revised form to the State agency each time an additional POS was determined or when a change occurred to the POS.⁷ We noted district officials completed the onsite school reviews and indicated the school's collection procedure in use matched the approved collection procedure, even though there was no approved POS. During our audit, a district official completed the required form for each school.

⁵ 7 CFR 210.15(a)(2).

⁶ 7 CFR 210.8(a)(1).

⁷ FNS personnel advised that the State agency's form does not require a school-by-school breakdown for identifying counting systems, but some districts do add this information to the form. The State agency is not required by Federal policy to collect this information, and it is not part of what the State agency considers the "agreement," although it is a required form. The State agency sent a new copy of the form to each district each year, but a district is not required to return it if there is no change in the counting systems from what was previously reported.

Recommendation No. 4

Instruct the State agency to require the district to retain a copy of the State agency-mandated form on which the district has stated the type of meal counting and claiming system, or systems currently used in the district, and to submit a new copy of this form whenever the district intends to implement any counting and claiming systems different from the ones stated to be in use for State agency approval.

FNS Response.

FNS concurred with Recommendation No. 4. However, FNS pointed out the only Federal requirement for prior approval to use a specific meal counting system is if the system proposed does not meet their definition of POS.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed.

Recommendation No. 5

Instruct the State agency to require the district to verify that each school is in compliance with the approved counting procedures, as part of the annual required onsite review process and, where any unapproved counting system is in use, the district to change the system to conform to one of the approved systems or submit an amendment to the State agency to obtain permissions to operate the claiming system in use.

FNS Response.

FNS concurred with Recommendation No. 5. However, FNS noted the State agency has stated that they do not consider the Methods of Collection and Meal Counting Form to be a part of their agreement with school food authorities.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed.

Section 2. Controls Over Procurement Related to the Food Service Management Company

The district did not monitor usage of USDA-donated commodities to ensure proper credit was received from the FSMC. Also, the district and FSMC did not use the meal accountability systems as a basis for verifying the billings from the FSMC. This occurred because the district was not aware of specific policies, procedures, or regulations related to the NSLP/SBP concerning the USDA-donated commodities; including the rebate program, proper meal counting, and the FSMC contract. As a result, the FSMC had not accounted for \$2,785 in USDA-donated commodities, as required by the contract terms, and the FSMC's billings to the district were not reconciled to the district's documentation of meals served. Also, the district turned over \$468 in rebate checks from processors of donated commodities to the FSMC.

Finding 3

The District Did Not Monitor USDA-Donated Commodities

The district did not ensure it received proper credit for its USDA-donated commodities, and it had no monitoring procedures to ensure the FSMC followed the contract and contract addendum related to commodities. The district relied solely on the commodity information provided by the FSMC. As a result, there was an unaccounted for difference in commodity credits of \$2,785 for the 2002/2003 school year⁸ (see exhibits A and C).

Federal regulations⁹ require that the contract with the FSMC shall expressly provide that any donated foods received by the recipient agency and made available to the FSMC shall be utilized solely for the purpose of providing benefits for the employing agency's food service operation, and it shall be the responsibility of the recipient agency to demonstrate that the full value of all donated foods is used solely for the benefit of the recipient agency. Federal regulations¹⁰ require all federally-donated foods, received by the district and made available to the FSMC, accrue only to the benefit of the district's nonprofit school food service and are fully utilized therein. Federal regulations¹¹ also state grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

The district also did not perform yearend reviews of commodity usage and reconciliations to ensure the FSMC's credits for commodity usage, records of commodity receipts and usage, and inventory records were correct. The

⁸ We did not review activities related to credits for donated commodities prior to the 2002/2003 school year because this issue was reported in Audit Report No. 27601-12-KC, issued in May 2001.

⁹ 7 CFR 250.12(d).

¹⁰ 7 CFR 210.16(a)(6).

¹¹ 7 CFR 3016.36(b)(2).

FSMC performed the inventory independently and gave the district a report. The district did not monitor or have controls in place to ensure the FSMC used donated commodities solely for the purpose of providing benefits to the district and provided proper credit for the donated commodities used.

Recommendation No. 6

Instruct the State agency to require the district to develop monitoring procedures and internal controls over FSMC operations to include receipt and use of donated commodities. Specifically, require the district to ensure proper credits have been received from the FSMC and correct any deficiencies in commodity credits to the food service account for the 2002/2003 school year. Instruct the State agency to verify the district has implemented the procedures.

FNS Response.

FNS concurred with Recommendation No. 6.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed.

Finding 4

District Meals Claimed for Reimbursement Were Not Reconciled to FSMC Billings and the Meal Accountability System's Reports

The number of meals billed by the FSMC did not agree to basic meal counts generated by the district's meal accountability systems. This occurred because the district relied on the FSMC billings and did not attempt to reconcile meals billed to the meal counts from the meal accountability systems. As a result, the FSMC billings for lunch meal counts reported on 10 of the monthly billings contained errors and resulted in overclaims of \$10,281 and underclaims of \$4,822, for a net overbilling of about \$5,460 (see exhibits A and D).

Federal regulations¹² state that grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

We noted unexplained differences in each of the 10 months reviewed. A district employee advised that the district only met with the FSMC if there

¹² 7 CFR 3016.36(b)(2).

was a large discrepancy between the district's meal counts and the FSMC's counts and had only met with the FSMC two or three times during the 2002/2003 school year. The billings by the FSMC for the 2002/2003 school year should be compared with the meal counts that were generated by the district's automated meal accountability systems, not the meal counts as they were reported to the central office through the inaccurate reporting procedures identified in Finding No. 1, above. Differences in billings and the accurate meal counts should then be resolved.

Recommendation No. 7

Instruct the State agency to require the district to implement control procedures to promptly reconcile meal counts, per the automated system with future FSMC billings, review the billings for the 2002/2003 school year in comparison with the corrected meal counts derived from the automated meal accountability systems, resolve any discrepancies found, and recover any erroneous charges for the school lunch fund. Instruct the State agency to verify the district has implemented the reconciliation procedures and corrected the errors.

FNS Response.

FNS concurred with Recommendation No. 7.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed.

Finding 5

District Did Not Have Adequate Controls or Monitoring Procedures Over Rebate Program

The district did not have adequate controls or monitoring procedures in place for rebate programs from processors of donated commodities. The district personnel were not aware that the rebates should only benefit the school nutrition program. As a result, the district gave rebates of \$468 to the FSMC that should have been deposited into the food service account (see exhibit A).

Federal regulations¹³ require all federally-donated foods, received by the district and made available to the FSMC, accrue only to the benefit of the nonprofit school food service and are fully utilized therein. Federal regulations¹⁴ require that when applicable end-products are sold to recipient

¹³ 7 CFR 210.16(a)(6).

¹⁴ 7 CFR 250.30(k)(1).

agencies, each recipient agency shall submit refund applications to the processor within 30 days from the close of the month in which the sales were made, except that recipient agencies may submit refund applications to a single processor on a Federal fiscal quarterly basis if the total anticipated refund due for all purchases of product from that processor during the quarter is \$25 or less. Federal regulations¹⁵ state grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. Federal regulations¹⁶ state the contract shall expressly provide that any donated foods, received by the recipient agency and made available to the FSMC, shall be utilized solely for the purpose of providing benefits for the employing agency's food service operation, and it shall be the responsibility of the recipient agency to demonstrate that the full value of all donated foods is used solely for the benefit of the recipient agency.

The district received rebate checks from a processor for 2001/2002, totaling \$468, which were turned over to the FSMC. The district never recorded the rebate checks in the food service ledger, which weakened the controls over cash receipts. One district official stated the district did not monitor or have controls in place to ensure the FSMC used donated commodities solely for providing benefits to the district.

Recommendation No. 8

Instruct the State agency to require the district to implement control procedures for recording all income received, including rebates, in the food service ledger and to verify credit is received for the cited rebate checks. Instruct the State agency to ensure the district has properly implemented the procedures.

FNS Response.

FNS concurred with Recommendation No. 8.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed.

¹⁵ 7 CFR 3016.36(b)(2).

¹⁶ 7 CFR 250.12(d).

Finding 6**District Did Not Adequately Monitor FSMC Contract Terms**

The district did not have a monitoring process and internal controls in place to ensure that the FSMC performed in accordance with the terms, conditions, and specifications of their contract. This occurred because officials relied on the FSMC to adhere to contract terms with little or no routine monitoring by the district. We found that the district had no assurance the FSMC (1) correctly billed for meals served, (2) complied with contract terms related to incurring expenses, as agreed, and (3) maintained current health certifications, insurance certificates, licenses, permits, and training necessary to conduct a food service operation.

Federal regulations¹⁷ require that grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

One district official stated the district did not monitor district personnel or the FSMC personnel to ensure they counted meals accurately or correctly used the meal accountability systems. The official stated the district did not have a monitoring process or controls in place to verify if the FSMC was adhering to all terms of their contract. Another district official stated the district only met with the FSMC if there was a large discrepancy between the district meal counts and the FSMC's counts and had only met with the FSMC two or three times during the 2002/2003 school year. (For additional examples, see exhibit E.)

Recommendation No. 9

Instruct the State agency to provide technical assistance to the district for developing a monitoring process and internal controls for ensuring that the FSMC operates in accordance with their contract. Instruct the State agency to verify the district has properly implemented the terms of the contract.

FNS Response.

FNS concurred with Recommendation No. 9.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed.

¹⁷ 7 CFR 3016.36(b)(2).

Section 3. Accounting Procedures and Controls

The district exhibited several weaknesses in internal controls related to accounting for the food service operation. For example, the district did not back up one of the automated meal accountability systems for an entire year and did not fully use and understand the accounting systems in place. Also, the district did not adequately train and provide oversight of employees to ensure the records of income were accurate. In addition, the district was not aware of FNS requirements concerning prorating interest earned on the general account to the food service fund. As a result, the district was not able to provide support for all meals claimed for reimbursement and did not properly account for income and expense transactions.

Federal regulations require that internal controls must maintain effective control and accountability for all grants and subgrants, cash, real and personal property, and other assets. The grantee and subgrantees must adequately safeguard all such property and assure that it is used solely for the authorized purposes.¹⁸ Federal regulations¹⁹ also state that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Finding 7

District Did Not Retain Proper Records

The district had not backed up the Power Lunch system (one of its automated meal accountability systems) from August 2001 to July 2002 because the computer technician did not know a backup was required. As a result, data supporting meals claimed for reimbursement was not available for analysis.

Federal regulations²⁰ state records shall be retained for a period of 3 years after the date of the final Claims for Reimbursement for the fiscal year to which they pertain.

An official stated the district did not have Power Lunch meal accountability data from August 2001 to July 2002.

Recommendation No. 10

Instruct the State agency to direct the district to implement control procedures for retaining all meal accountability records, including appropriate electronic

¹⁸ 7 CFR 3016.20(b)(3).

¹⁹ 7 CFR 3016.20(b)(2).

²⁰ 7 CFR 210.9(b)(17).

or hard copy records from automated meal accountability systems for 3 years, and ensure the district has implemented the procedures.

FNS Response.

FNS concurred with Recommendation No. 10.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed.

Finding 8

District's Accounting System Contained Flaws

The district's accounting system was not adequate to ensure the food service funds were properly accounted for and controlled. District officials did not fully understand the accounting system in place, did not reconcile the Annual Secretary of the Board Report (ASBR) amounts to the expenditure ledger to ensure financial information was correct, and miscoded an expense to the food service account. As a result, the district improperly reported revenues and expenditures to the State agency.

State agency guidelines²¹ state sales to pupils, sales to adults, sales of extra milk, and a la carte sales must be separated by codes. In addition, State agency procedures²² provide that Account 5151, Sales to Pupils, is the amount received from pupils for the sale of meals served under the NSLP/SBP. State agency procedures²³ provide that Account 2562, Food Preparation and Dispensing Services, are those activities concerned with preparing and serving regular and incidental meals, lunches, or snacks to pupils and staff in a school or local education agency. It includes cooking, operating kitchen equipment, preparing food, serving food, cleaning dishes, storing dishes, kitchen equipment, and cafeteria furniture. Federal regulations²⁴ state that expenditures of nonprofit school food service revenues shall be in accordance with the financial management system established by the State agency.

- The district improperly combined pupil sales, adult sales, a la carte sales, and extra milk sales under the "sales to adults" code in the revenue ledgers and on the ASBR. The school lunch secretaries were improperly combining the records of income at individual schools because they did not receive sufficient training on the procedures necessary to complete

²¹ Missouri Financial Accounting Manual, Procedure No. CDE-405.

²² Missouri Financial Accounting Manual, Procedure No. CDE-405.

²³ Missouri Financial Accounting Manual, Procedure No. CDE-406.

²⁴ 7 CFR 210.14(a).

the records of income. Also, officials were not monitoring the records of income to ensure accuracy of school lunch revenue accounts.

- The 2001/2002 food service expenses were accounted for in the expenditure ledger as \$748,535, while the ASBR showed \$753,535. An official could not fully justify the reason for the \$5,000 difference.
- We found the district accounted for the 2001/2002 lunch and summer school refunds of \$917 under the food service supplies expense account, instead of as a reduction to the food service revenues account. State agency officials stated the lunch refunds should have been accounted for as an adjustment to the sales to pupils account to offset the revenue originally recorded.
- The district paid an invoice of \$149.85 during June 2002 for concrete remesh, which was incorrectly charged as an expense to the food service account. The official who coded the invoice stated the transaction should have been expensed to a district maintenance account, not the food service account.

Recommendation No. 11

Instruct the State agency to provide technical assistance to the district on requirements and actions to be taken to correct the cited incorrect reporting of revenue and expenditures. Instruct the State agency to instruct the district to develop procedures for strengthening internal controls over operations of the food service account by (1) providing proper training on use of the accounting system, (2) reconciling the ASBR and ledgers prior to submission to the State agency, and (3) correcting the improper charge to the food service account. Instruct the State agency to verify the district has implemented the procedures.

FNS Response.

FNS concurred with Recommendation No. 11.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed.

Finding 9**District Did Not Have Procedures to Prorate Interest Income to the Food Service Fund**

The district had no procedures to credit the school food service account with a prorated share of interest earned from the general fund and investments. Officials said they were not aware of any regulations requiring interest to be prorated to the food service fund. Therefore, the district did not receive an estimated \$7,450 in prorated interest from the general fund.

The Federal regulation's definition of revenue²⁵ shows that a prorated share of earnings from investments should be credited to the school food services account.

The closing cash balance for the school food service fund for 2001/2002 was \$96,251. The general fund annual interest yields ranged from 2.62 percent to 4.84 percent, and the capital outlay fund annual interest yields ranged from 3.18 percent to 4.84 percent for 2001/2002. Officials informed us the general fund supplemented the food service fund throughout the school year and noted the food service fund could have actually been negative at the beginning of the school year because of food costs and various other costs. Based on this information, we did not recommend the district refund monies to the food service account.

Recommendation No. 12

Instruct the State agency to direct the district to develop control procedures for prorating future interest earnings on food service funds to the food service account and verify the district has implemented the procedures.

FNS Response.

FNS concurred with Recommendation No. 12.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed.

²⁵ 7 CFR 210.2.

Section 4. Competitive Foods Sold During Meal Service Period

Finding 10

District Continued to Sell Competitive Foods of Minimal Nutritional Value

We observed a vending machine at the high school containing competitive foods that was used by students during meal service periods. The district had not completely followed corrective action instructions issued by the State agency after its April 1999 review. According to district officials, they did not know the 1999 deficiency related to prohibited food sales (soft drinks) also included the items in a vending machine currently in the food service area. As a result, the district continued to sell prohibited foods of minimal nutritional value to students in the food service area.

Federal regulations²⁶ prohibit the sale of foods of minimal nutritional value in the food service areas during the lunch meal periods. Such foods of minimal nutritional value include²⁷ chewing gum, hard candy, and licorice.

We noted that a vending machine located in the program food service area of the high school was available to students during the meal service period. The corrective action documentation for the earlier State agency review showed soda machines were relocated, as per conversation with State agency and district, to the location discussed. However, we observed foods of minimal nutritional value, such as licorice, chewing gun, and hard candy, in the remaining vending machine.

Recommendation No. 13

Instruct the State agency to direct the district to discontinue selling foods of minimal nutritional value in competition with the NSLP/SBP in the program food service area during the meal serving periods or relocate the vending machines from the program food service area.

FNS Response.

FNS concurred with Recommendation No. 13.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed.

²⁶ 7 CFR 210.11(b).

²⁷ 7 CFR 210, Appendix B.

Recommendation No. 14

Instruct the State agency to provide the district with guidance that explains what foods have minimal nutritional value and what foods are acceptable to be sold during the meal periods. Instruct the State agency to verify the district has implemented the procedures.

FNS Response.

FNS concurred with Recommendation No. 14.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the district will be completed.

Scope and Methodology

Our review primarily covered NSLP/SBP operations July 1, 2001, to May 31, 2003, concentrating on operations since July 1, 2002. However, records for other periods were reviewed, as deemed necessary. We performed audit work at the FNS Regional office in Denver, Colorado, and the school district in Kearney, Missouri. We selected Kearney R-I School District based on its location and because it used an FSMC. Fieldwork was performed during the period May through July 2003.

In 2001/2002 and 2002/2003, there were four elementary schools, one intermediate school, one middle school, and one high school. We reviewed NSLP/SBP claims of all seven schools and made meal observations at two elementary schools and the high school. Our audit was performed in accordance with Government Auditing Standards.

To accomplish our review objectives, we reviewed FNS, State agency, and district regulations, policies, procedures, manuals, and instructions governing NSLP/SBP operations. We also reviewed the State agency's most recent administrative review of the district's NSLP/SBP operations and the corrective actions taken in response to the administrative review findings and recommendations. The following audit procedures were also performed:

- Interviewed officials from the State agency, district, and FSMC in order to obtain an overview of their method of operation for the NSLP/SBP;
- Evaluated the district's procedures used to gather and consolidate monthly meal claims and whether reports were verified for accuracy;
- Evaluated edit check controls used to assure the reasonableness of claims for reimbursement when daily meal counts, by category, exceeded average daily attendance;
- Reviewed the district's accounting system, which included a review of program funds and interest on those funds;
- Analyzed the monitoring efforts of the district through a review of the onsite accountability reviews conducted during 2001/2002 and 2002/2003;
- Reviewed the district's procedures for issuing a Request for Proposal (RFP)/contract with the FSMC to operate the nonprofit food service;
- Reviewed the most recent RFP/contract with the FSMC; and

- Compared the number of meals claimed (for each category) for reimbursement to the number of meals billed by the FSMC on its monthly invoices.

Exhibit A – Summary of Monetary Results

Exhibit A – Page 1 of 1

| Finding No. | Description | Amount | Category |
|-------------|--|---------|-----------|
| 1 | District Overclaimed the Accumulated Meal Counts | \$959 | <u>1/</u> |
| 1 | District Underclaimed the Accumulated Meal Counts | \$447 | <u>2/</u> |
| 3 | FSMC Did Not Properly Account for the Value of USDA-Donated Commodities Used | \$2,785 | <u>3/</u> |
| 4 | FSMC Overbilled the Accumulated Lunches (Net) | \$5,459 | <u>3/</u> |
| 5 | FSMC Improperly Received Rebate Checks for Donated Commodities | \$468 | <u>3/</u> |
| 8 | School Lunch Funds Improperly Charged for Maintenance Expense | \$150 | <u>3/</u> |

1/ Questioned Costs, Recovery Recommended

2/ Underclaim

3/ Funds To Be Put To Better Use

Exhibit B – District Errors in Accumulating Lunch Meal Counts

Exhibit B – Page 1 of 3

| | Paid | Free | Reduced | Total Underclaim | Total Overclaim |
|--------------------|---------|------------|-----------|------------------|-----------------|
| August 2002 | | | | | |
| District Total | 11,685 | 755 | 314 | | |
| Per Audit | 11,607 | 807 | 348 | | |
| Difference | 78 | -52 | -34 | | |
| Rate | \$0.20 | \$2.14 | \$1.74 | | |
| Total | \$15.60 | (\$111.28) | (\$59.16) | (\$170.44) | \$15.60 |

| | Paid | Free | Reduced | Total Underclaim | Total Overclaim |
|-----------------------|---------|-----------|---------|------------------|-----------------|
| September 2002 | | | | | |
| District Total | 27,406 | 2,170 | 870 | | |
| Per Audit | 27,025 | 2,192 | 850 | | |
| Difference | 381 | -22 | 20 | | |
| Rate | \$0.20 | \$2.14 | \$1.74 | | |
| Total | \$76.20 | (\$47.08) | \$34.80 | (\$47.08) | \$111.00 |

| | Paid | Free | Reduced | Total Underclaim | Total Overclaim |
|---------------------|----------|----------|---------|------------------|-----------------|
| October 2002 | | | | | |
| District Total | 30,766 | 2,302 | 851 | | |
| Per Audit | 29,243 | 2,239 | 797 | | |
| Difference | 1,523 | 63 | 54 | | |
| Rate | \$0.20 | \$2.14 | \$1.74 | | |
| Total | \$304.60 | \$134.82 | \$93.96 | \$0.00 | \$533.38 |

| | Paid | Free | Reduced | Total Underclaim | Total Overclaim |
|----------------------|----------|-----------|---------|------------------|-----------------|
| November 2002 | | | | | |
| District Total | 22,627 | 1,680 | 664 | | |
| Per Audit | 22,629 | 1,695 | 647 | | |
| Difference | -2 | -15 | 17 | | |
| Rate | \$0.20 | \$2.14 | \$1.74 | | |
| Total | (\$0.40) | (\$32.10) | \$29.58 | (\$32.50) | \$29.58 |

Exhibit B – District Errors in Accumulating Lunch Meal Counts

Exhibit B – Page 2 of 3

| | Paid | Free | Reduced | Total Underclaim | Total Overclaim |
|----------------------|---------|---------|---------|------------------|-----------------|
| December 2002 | | | | | |
| District Total | 20,860 | 1,527 | 597 | | |
| Per Audit | 20,713 | 1,514 | 579 | | |
| Difference | 147 | 13 | 18 | | |
| Rate | \$0.20 | \$2.14 | \$1.74 | | |
| Total | \$29.40 | \$27.82 | \$31.32 | \$0.00 | \$88.54 |

| | Paid | Free | Reduced | Total Underclaim | Total Overclaim |
|---------------------|---------|-----------|---------|------------------|-----------------|
| January 2003 | | | | | |
| District Total | 20,998 | 1,559 | 614 | | |
| Per Audit | 20,849 | 1,583 | 592 | | |
| Difference | 149 | -24 | 22 | | |
| Rate | \$0.20 | \$2.14 | \$1.74 | | |
| Total | \$29.80 | (\$51.36) | \$38.28 | (\$51.36) | \$68.08 |

| | Paid | Free | Reduced | Total Underclaim | Total Overclaim |
|----------------------|--------|-----------|---------|------------------|-----------------|
| February 2003 | | | | | |
| District Total | 25,764 | 1,922 | 742 | | |
| Per Audit | 25,759 | 1,944 | 724 | | |
| Difference | 5 | -22 | 18 | | |
| Rate | \$0.20 | \$2.14 | \$1.74 | | |
| Total | \$1.00 | (\$47.08) | \$31.32 | (\$47.08) | \$32.32 |

| | Paid | Free | Reduced | Total Underclaim | Total Overclaim |
|-------------------|--------|-----------|---------|------------------|-----------------|
| March 2003 | | | | | |
| District Total | 25,204 | 1,829 | 720 | | |
| Per Audit | 25,200 | 1,847 | 702 | | |
| Difference | 4 | -18 | 18 | | |
| Rate | \$0.20 | \$2.14 | \$1.74 | | |
| Total | \$0.80 | (\$38.52) | \$31.32 | (\$38.52) | \$32.12 |

Exhibit B – District Errors in Accumulating Lunch Meal Counts

Exhibit B – Page 3 of 3

| | Paid | Free | Reduced | Total Underclaim | Total Overclaim |
|-------------------|--------|-----------|---------|------------------|-----------------|
| April 2003 | | | | | |
| District Total | 27,703 | 1,988 | 787 | | |
| Per Audit | 27,679 | 2,016 | 763 | | |
| Difference | 24 | -28 | 24 | | |
| Rate | \$0.20 | \$2.14 | \$1.74 | | |
| Total | \$4.80 | (\$59.92) | \$41.76 | (\$59.92) | \$46.56 |

| | Paid | Free | Reduced | Total Underclaim | Total Overclaim |
|-----------------|--------|--------|---------|------------------|-----------------|
| May 2003 | | | | | |
| District Total | 25,393 | 1,717 | 695 | | |
| Per Audit | 25,385 | 1,717 | 695 | | |
| Difference | 8 | 0 | 0 | | |
| Rate | \$0.20 | \$2.14 | \$1.74 | | |
| Total | \$1.60 | \$0.00 | \$0.00 | \$0.00 | \$1.60 |

TOTAL LUNCH OVERCLAIM \$958.78

TOTAL LUNCH UNDERCLAIM (\$446.90)

Exhibit C – District's 2002/2003 Commodity Inventory

Exhibit C – Page 1 of 1

| Credited Commodities Reconciliation for 2002/2003 | |
|--|----------------|
| Beginning Inventory per FSMC | \$12,270 |
| Add 2002/2003 Commodities Donated per State agency | \$66,734 |
| Commodities Available for Use | \$79,004 |
| Less Credited USDA-Donated Commodities to District ²⁸ | \$47,708 |
| Commodities to be Accounted for per Audit | \$31,296 |
| Less Ending Inventory per FSMC | \$28,511 |
| Unaccounted for USDA-Donated Commodities | \$2,785 |

Note: The 2002/2003 beginning inventory does not take into account inventory used during June 2002 for summer school.

²⁸ The FSMC credited the billings for \$49,473 for commodities used. However, the FSMC later billed the district for \$1,766 to reduce the net credit for commodities (\$49,473.44-\$1,765.73=\$47,708 rounded).

Exhibit D – Errors in FSMC Billing Lunch Meal Counts

Exhibit D – Page 1 of 2

| | Student | Adult | Total |
|--------------------|----------|---------|----------|
| August 2002 | | | |
| FSMC Invoice | \$22,667 | \$1,299 | \$23,966 |
| Per Audit | \$22,461 | \$1,088 | \$23,549 |
| Difference | \$206 | \$211 | \$417 |
| Total Overclaim | | | \$417 |

| | Student | Adult | Total |
|-----------------------|------------|---------|------------|
| September 2002 | | | |
| FSMC Invoice | \$50,697 | \$3,867 | \$54,564 |
| Per Audit | \$52,918 | \$3,832 | \$56,750 |
| Difference | (\$2,221) | \$35 | (\$2,186) |
| Total Underclaim | | | (\$2,186) |

| | Student | Adult | Total |
|---------------------|----------|---------|----------|
| October 2002 | | | |
| FSMC Invoice | \$64,383 | \$4,601 | \$68,984 |
| Per Audit | \$56,811 | \$4,184 | \$60,995 |
| Difference | \$7,572 | \$417 | \$7,989 |
| Total Overclaim | | | \$7,989 |

| | Student | Adult | Total |
|----------------------|-----------|---------|-----------|
| November 2002 | | | |
| FSMC Invoice | \$41,543 | \$3,066 | \$44,609 |
| Per Audit | \$43,949 | \$3,296 | \$47,245 |
| Difference | (\$2,406) | (\$230) | (\$2,636) |
| Total Underclaim | | | (\$2,636) |

| | Student | Adult | Total |
|----------------------|----------|---------|----------|
| December 2002 | | | |
| FSMC Invoice | \$40,515 | \$2,959 | \$43,474 |
| Per Audit | \$40,139 | \$2,952 | \$43,091 |
| Difference | \$376 | \$7 | \$383 |
| Total Overclaim | | | \$383 |

| | Student | Adult | Total |
|---------------------|----------|---------|----------|
| January 2003 | | | |
| FSMC Invoice | \$40,735 | \$2,865 | \$43,600 |
| Per Audit | \$40,522 | \$2,885 | \$43,407 |
| Difference | \$213 | (\$20) | \$193 |
| Total Overclaim | | | \$193 |

Exhibit D – Errors in FSMC Billing Lunch Meal Counts

Exhibit D – Page 2 of 2

| | Student | Adult | Total |
|----------------------|----------|---------|----------|
| February 2003 | | | |
| FSMC Invoice | \$50,153 | \$3,587 | \$53,740 |
| Per Audit | \$50,032 | \$3,553 | \$53,585 |
| Difference | \$121 | \$34 | \$155 |
| Total Overclaim | | | \$155 |

| | Student | Adult | Total |
|-------------------|----------|---------|----------|
| March 2003 | | | |
| FSMC Invoice | \$48,893 | \$3,395 | \$52,288 |
| Per Audit | \$48,838 | \$3,414 | \$52,252 |
| Difference | \$55 | (\$19) | \$36 |
| Total Overclaim | | | \$36 |

| | Student | Adult | Total |
|-------------------|----------|---------|----------|
| April 2003 | | | |
| FSMC Invoice | \$53,703 | \$3,930 | \$57,633 |
| Per Audit | \$53,606 | \$3,450 | \$57,056 |
| Difference | \$97 | \$480 | \$577 |
| Total Overclaim | | | \$577 |

| | Student | Adult | Total |
|-----------------|----------|---------|----------|
| May 2003 | | | |
| FSMC Invoice | \$49,569 | \$3,304 | \$52,873 |
| Per Audit | \$48,923 | \$3,420 | \$52,343 |
| Difference | \$646 | (\$116) | \$530 |
| Total Overclaim | | | \$530 |

| | |
|-------------------------------|-----------------|
| TOTAL LUNCH OVERBILLED | \$10,281 |
|-------------------------------|-----------------|

| | |
|--------------------------------|----------------|
| TOTAL LUNCH UNDERBILLED | \$4,822 |
|--------------------------------|----------------|

| | |
|-----------------------------|----------------|
| NET LUNCH OVERBILLED | \$5,459 |
|-----------------------------|----------------|

Exhibit E – District Control Weaknesses in Overseeing FSMC Contract

Exhibit E – Page 1 of 3

| CONTRACT PROVISIONS | DISTRICT CONTROL WEAKNESSES |
|--|---|
| District shall ensure that the Company supplies meals that meet all requirements of the NSLP/SBP and other requirements by the State of Missouri. | A district official stated the district did not monitor nutrient equivalents. The official stated the district assumes the State auditors will do that during their evaluation. |
| District shall ensure that the Company's operations are in conformance with the District's agreement under the program. | A district official stated the district did not monitor district personnel or the FSMC personnel to ensure they counted meals accurately or correctly used Accu-Scan and Power Lunch. The official stated the district does not have a monitoring process or controls in place to verify if the FSMC is adhering to their contract. |
| To the maximum extent possible, the Company shall use in the preparation of meals served to students, commodities donated to the District by the USDA, and shall be responsible therefore. | A district official stated the district did not have a monitoring process or any controls in place to ensure the FSMC used donated commodities to the maximum extent possible. |
| The Company shall furnish its own long distance telephone service or reimburse District for long distance telephone service used. | A district official stated the District pays for the FSMC's long distance telephone charges. The official did not perform analyses to determine if the company charges the district for expenses that the FSMC itself should incur. The official does not have a monitoring process or any controls in place to minimize erroneous charges. The official does not review the FSMC's invoices for erroneous charges and pays the FSMC's invoice, even if the invoice does not reconcile to the District's meal count. The official does not question the FSMC's invoice. |

Exhibit E – District Control Weaknesses Over FSMC Contract

Exhibit E – Page 2 of 3

| CONTRACT PROVISIONS | DISTRICT CONTROL WEAKNESSES |
|---|--|
| The parties agree that the District shall be responsible for the collection and accounting of all funds received in payment of meal cost by food service. Furthermore, the District and the Company shall reconcile meal counts on a weekly basis to ensure the proper determination of the number of meals served per day. | A district official stated the district only met with the FSMC if there was a large discrepancy between the district meal counts and the FSMC's counts. The official stated the district had only met with the FSMC two to three times during the 2002/2003 school year. |
| The Company shall ensure applicable health certification(s) is maintained and that all State and local regulations are being met by the Company preparing or serving meals at District's facilities. | A district official stated the district does not have a monitoring process or controls in place to ensure applicable health certifications were acquired and maintained and that the FSMC was meeting all State and local regulations. The official stated the district had never asked the FSMC to provide proof of current health certification. |
| The Company shall obtain licenses or permits necessary for the food service operation on the premises as a direct cost of operation. | A district official stated the FSMC was trusted to follow the requirements for obtaining the licenses and permits necessary for food service operation on district premises, as stipulated in the contract, but the district did not monitor the FSMC in any way to verify if, in fact, the FSMC adhered to the contract. |

Exhibit E – District Control Weaknesses Over FSMC Contract

Exhibit E – Page 3 of 3

| CONTRACT PROVISIONS | DISTRICT CONTROL WEAKNESSES |
|---|---|
| The Company shall require all employees to secure, as a condition of employment, the applicable medical certification as required by State and local laws and regulations before engaging in food service operations. | A district official stated the district had never asked the FSMC to provide proof that the FSMC employees received a medical examination. |
| The Company shall adopt a program calculated to offer continuous training of employees in food preparations and service methods. | A district official stated the district did not have a monitoring process or controls in place to ensure that the FSMC offers continuous training to their employees. |
| The Company shall maintain, as a direct cost of operation, the following insurance coverage and will obtain and deliver to District certificates from its insurers evidencing said insurance coverage. While performing services hereunder, the Company shall maintain unemployment insurance and all other insurance required by Missouri law for the benefit of employees of the Company. | A district official stated the FSMC was never asked for proof of insurance and the district did not keep insurance certificates on file. |

Exhibit F – FNS Reply to Official Draft

Exhibit F – Page 1 of 1



United States
Department of
Agriculture

Food and
Nutrition
Service

Mountain
Plains
Region

1244 Speer Boulevard, Suite 903
Denver, Colorado 80204-3585

Reply to
Attn of: MPSN-200

MAR 11 2004

Subject: National School Lunch Program – Kearney R-1 School District
Kearney, Missouri – Audit No. 27010-20-KC

To: Dennis J. Gannon
Regional Inspector General for Audit
Office of Inspector General for Audit
8930 Ward Parkway, Suite 3016
Kansas City, Missouri 64114

We concur with Recommendation Nos. 1 through 14.

For Recommendation No. 2 the SA may, if they wish, decide not to pay the underclaims. For Recommendation No. 4 we would like to point out that the only Federal requirement for prior approval to use a specific meal counting system is if the system proposed does not meet our definition of point of service. For Recommendation No. 5 we would note the SA has stated that they do not consider the form to be a part of their agreement with school food authorities.

If you have any questions, please contact Jerry Stankorb at (303) 844-0355.

A handwritten signature in cursive script, appearing to read "Darlene Sanchez".

DARLENE SANCHEZ
Regional Director
Special Nutrition Programs

